

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 00007 022208Z

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

PA-02 PRS-01 USIA-15 /097 W
----- 045913

R 022149Z JAN 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 5315

UNCLAS OTTAWA 0007

PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJECT: BANK OF CANADA LOWERS SECONDARY RESERVE REQUIREMENTS

REF: OTTAWA 3906

1. ON DECEMBER 30, BANK OF CANADA ANNOUNCED LOWERING OF SECONDARY RESERVE REQUIRMENTS FOR CHARTERED BANKS FROM 7 PERCENT TO 6 PERCENT, EFFECTIVE IN JANUARY. THIS IS SECOND TIME IN MONTH (REFTEL) THAT BANK HAS LOWERED RATE, THUS EASING SLIGHTLY ABILITY OF CHARTERED BANKS TO LEND MONEY.

2. BANK GOVERNOR GERALD BOUEY STATED IN ANNOUNCEMENT THAT REASONS FOR ACTION WERE SAME AS LAST MONTH, "NAMELY THAT THE BANK OF CANADA DID NOT WANT TO KEEP THE SECONDARY RESERVE REQUIREMENTS ANY HIGHER THAN WAS NECESSARY AND THAT CIRCUMSTANCES WERE FAVORABLE FOR A REDUCTION IN IT."

3. ACCORDING TO BOUEY, "TREASURY BILLS MAKE UP THE BULK OF THE BANKS' SECONDARY RESERVES AND THE UNCLASSIFIED

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TOTAL AMOUNT OF TREASURY BILLS OUTSTANDING IS NOT

CURRENTLY BEING EXPANDED OWING TO THE HIGH LEVEL
OF GOVERNMENT BANK BALANCES."

4. BOUEY ADDED THAT ACTION "WAS PRIMARILY TECHNICAL
IN CHARACTER INsofar AS MONETARY POLICY WAS
CONCERNED" AND THAT IMMEDIATE EFFECT OF APPRECIABLE
INCREASE IN FREE LIQUID ASSETS "WILL BE SUBSTANTIAL
OFFSET BY THE CASH RESERVE MANAGEMENT AND OPEN MARKET
OPERATIONS OF THE BANK OF CANADA."

5. COMMENT: GOVERNMENT BANK BALANCES WERE GREATLY
INCREASED BY HIGHLY SUCCESSFUL CANADIAN SAVINGS
BOND SALES CAMPAIGN LAST FALL WHICH NETTED SLIGHTLY
MORE THAN C\$4 BILLION. THUS GOVERNMENT HAS SUBSTANTIAL
CASH HOLDINGS WHICH IT CAN USE TO MODERATE EFFECTS
OF BANK OF CANADA ACTION OR FURTHER EASE MONETARY
POLICY IF RECESSIONARY PRESSURES INCREASE.
PORTER

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Message Attributes

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Disposition Date: 01 JAN 1960
Disposition Event:
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